Synopsis of the Thesis entitled
The Impact of Microfinance on Poverty in Kerala

Introduction

India has made remarkable progress in several areas like technology, industry, agriculture and infrastructure during the post-independence era. Still, the eradication of poverty remains an unresolved problem. India is considered as the epi-centre of poverty with over 300 million poor people. Poverty, therefore, continues to pose the greatest development challenge in India.

The planners and policy-makers identified that one major cause of poverty in India is inability of the poor to access capital to make productive investment for income and employment generation owing to the exclusion of the poor by the formal financial institutions in their lending activities. The continuous failure of the formal financial system to deliver credit and other financial services to the poor and the realization of potential role of microfinance in poverty alleviation led to the emergence of microfinance in India.

In Kerala, microfinance has become a novel and a vital strategy of poverty reduction. Government-based and NGO-based microfinance systems exist side by side in the State. Both have played a dominant role in making microfinance a real movement in Kerala. Kudumbashree is the Government-initiated microfinance programme in Kerala. It is a participatory, women-oriented poverty-reduction programme for wiping out absolute poverty from the State through microfinancing. NGOs are the fore-runners of microfinance programmes in the State. They have made great strides in the promotion and growth of microfinance programmes in Kerala.

Relevance of the Study

Kudumbashree project of the Government of Kerala adopts a holistic and participatory approach with the active involvement of stake holders to tackle the multiple dimensions and manifestations of poverty. This approach is highly acclaimed at national and international levels as the best and workable participatory poverty-reduction model. This study seeks to bring out the effectiveness of the strategy of participatory development through microfinance in the upliftment of socio-economic conditions of the poor households.

The significance and relevance of the present study consist in the fact the Kudumbashree project was implemented in 1998 for the eradication of all forms of poverty from the State within the period of 10 years. The poverty impact of this project has not, so far, been assessed in the earlier studies. Further, the study made use of the econometric model of Pitt and Khandker, which is used for identifying the determinants of the level of participation in microfinance programmes. Further,

for the estimation of the impact of microfinance, regression model of Kondo et al. is also utilized in the present study.

Objectives of the Study

The specific objectives of the study are:-

1. To assess the depth of outreach and level of participation of the poor in the microfinance programmes in Kerala and to identify the factors influencing their level of participation.
2. To evaluate the impact of microfinance programmes upon the poor in terms of household income, savings, employment, expenditure, assets and dwelling conditions.
3. To examine the extent to which microfinance programmes have contributed to poverty alleviation and household welfare.
4. To make a comparative study of the impact of the performance of the Government-based and the NGO-based microfinance programmes on amelioration of poverty and the upliftment of the poor.
5. To trace out the problems of microfinance programmes in Kerala and to suggest the methods of resolving them.

Hypotheses

1. Microfinance contributes to alleviation of poverty.
2. There is a significant difference in the per capita monthly income and per capita monthly expenditure of the participants and non-participants of microfinance programmes.

Scope and Coverage of the Study

The Kottayam, Idukki and Wayanad districts of Kerala fall within the purview of this study. Idukki and Wayanad districts were selected because they are the backward districts of Kerala with a high density of tribal population and microfinance movement has been deeply rooted in these districts. Kottayam district has been chosen mainly due to its highest literacy rate among the other

districts in Kerala. The participant and non-participant households of microfinance programmes in Kottayam, Idukki and Wayanad districts of Kerala come within the scope of the study.

Methodology and Data Sources

This study is both empirical and exploratory in nature. It is based on the primary and secondary data. The impact of microfinance was assessed by comparing both the socio-economic conditions of the participant households before and after microfinance intervention and the participant households with the non-participant households.

A sample survey has been conducted by the researcher among 375 randomly selected respondents consisting of 180 members from Kudumbashree group, 120 members from three leading NGO groups, namely, Changanassery Social Service Society (CHASS), Peermedu Development Society (PDS) and Shreyes, and 75 non-participants from Kottayam, Idukki and Wayanad districts of Kerala during the period from August 2009 to May 2010. Both participant and non-participant group of households were drawn through a multi-stage stratified sampling method.

Personal interviews with the officials of Kudumbashree and NGOs were also conducted to assimilate their views and to identify issues pertaining to the objectives of the study. Secondary data has been gathered from books, journals, Government reports and documents, internet, and annual reports of Kudumbashree projects, NGOs, etc.

Tools of Analysis

The study used both descriptive statistics and econometric tools to analyze the data related to the study. Among the various statistical tools, the Chi-square test, Two-Sample t-test, Analysis of variance (ANOVA), and Regression Analysis were used.

Organization of the Chapters

The study is divided into five chapters. The first chapter is an introductory one, dealing with the context, relevance, research design, research issues, objectives, and hypotheses, research methodology, limitations of the study, review of literature, and research gap. The second chapter presents a profile of poverty and microfinance programmes in India and Kerala. The third chapter looks into the role of microfinance in the alleviation of poverty and in the promotion of household welfare in Kerala. The fourth chapter is a comparative analysis of the performance of Government and NGO promoted microfinance programmes in the upliftment of the poor in Kerala. The concluding chapter recapitulates the findings and suggestions of the study.

Major Findings

The analysis of the impact of microfinance programme on poverty and development in Kerala brings to light the following important findings:

1. All the clients have more than five years of participation in the microfinance programme. The duration of participation is longer for the members of the NGO groups.

2. The depth of outreach of microfinance programme to the poor and the weaker sections is more evident as all the clients were in the State BPL list and an overwhelming majority of them had no formal credit and savings in the pre-microfinance period. Further, the SC/ST and OBC families constituted half of the participants.

3. The variables such as age and caste of the client, BPL/APL family and years of participation are found to be significant among the various determinants of participation. The regression co-efficient of age turned out to be negative reflecting that higher age of clients reduced total borrowings from microfinance programme. The caste of the participants appeared a constraint to the volume of their borrowings. The borrowings of SC/ST and OBC households are substantially less than the households belonging to general category. The borrowing of the BPL family is less than the APL family by Rs.25,381. It signifies that the economically better-off clients derived greater benefits from the programme. Finally, a one year increase in the participation of microfinance programme enhanced the total borrowing from microfinance by Rs.7,569.

4. All microfinance clients made use of both thrift and income-generation activity loans. But there are some clients who have not yet obtained bank linkage loan on account of the failure of their groups to fulfill the eligibility conditions put forward by NABARD for linkage loan.

Vast majority of these clients belonged to the Kudumbashree groups of Kottayam and Wayanad districts.

5. The average household loan per year of the microfinance clients is estimated to be Rs. 11,751. It is almost the same for both the NGO and the Kudumbashree groups. However, Kudumbashree clients of Idukki and Wayanad districts have borrowed greater volume of credit for income-generation activity, compared to the members of the NGO groups. Additionally, the total borrowing of the microfinance clients are much higher than that of the non-participants.

6. There is a drastic change in the borrowing pattern of the participant households during the post-microfinance period, where, SHGs/NHGs became major source of borrowing for both the NGO and the Kudumbashree clients. Whereas, in the Pre-microfinance period, money-lender was the principal source of borrowing and now their dependence on money-lenders has been eliminated almost completely.

7. The interest rates imposed on microfinance loans ranged between 5 to 13 percent per annum. The interest rate on thrift loan is 12 percent both for NGO and Kudumbashree borrowers. The interest rates charged on linkage and income-generating activity loan are relatively higher for the borrowers of Kudumbashree groups, which ranged between 9 percent to 13 percent per annum.

8. More than half of the clients utilized both thrift and linkage loans for productive purposes. However, unproductive use of these credits is significantly high among the members of Kudumbashree groups in all the three districts.

9. Nearly 95 percent of the clients made prompt repayment of their loans availed.

10. The main type of income-generating-activity taken up by the clients is animal husbandry, followed by Manufacturing. Most of the clients of both the Kudumbashree and the NGOs in Kottayam and Idukki districts are engaged in animal husbandry. Whereas, in Wayanad district, more than half of the Kudumbashree clients worked in the manufacturing sector. The number of clients working in the agricultural sector is reported to be the highest in the Shreyes group of Wayanad district.

11. Most of the microfinance clients were unemployed during the pre-microfinance period.

However, consequent to microfinance intervention all of them got some employment in the economic activities taken up by them. A good many of the clients got employment for more than 21 days per month. The days of employment generation per month is greater for the Kudumbashree clients in all the three districts. The employment-generation capacity of microfinance is more apparent as more than half of the non-participants have no employment at all.

12. The monthly income generation is the highest in the manufacturing sector and the lowest in the animal husbandry. The economic activity generated a monthly income of above Rs.3000 for 22.3 percent of the clients, of this, more than 10 percent of them earned a monthly income of above Rs.5000 and majority of them belonged to the Kudumbashree group. An important finding is that nearly one third of the clients are able to earn only less than Rs. 1000 per month and bulk of them are from the districts of Kottayam and Idukki. This can be attributed to the low level of income generation in animal husbandry especially goat rearing, as most of the clients in these districts are engaged in it. Income generation is relatively higher among the Kudumbashree clients in all the districts.

13. More than 40 percent of the participant households have monthly income above Rs.4000. Kudumbashree has the highest number of such households. However, an overwhelming majority of the non-participant households are having income less than Rs.2000 per month. This may be because of their poor resource endowment and lack of regular employment.

    The positive impact of microfinance on household income is indicated by the statistically significant regression co-efficient of average amount of borrowing per year, indicating that a 10 percent rise in borrowing per year from microfinance programme enhances the household monthly income of the client by 7.9 percent and per capita monthly income by 2 percent. The values of these regression co-efficients are significantly higher in the Kudumbashree group.

14. The food-intake of majority of the household of microfinance clients has been more than three times per day. It is very low in the case of non-participant households. The benefit of microfinance intervention became more evident as 15 percent of the participating households were able to access only two square meals per day in the pre-microfinance period.

15. As per regression estimate it is found that the per capita monthly total consumption expenditure of the participant household is greater by Rs.376 compared to the non-

participant households. The value of regression co-efficients also suggested that an increase of average borrowing per year by 10 percent will lead to a 1.3 percent rise in the per capita monthly total consumption expenditure of the participant households. The value of this co-efficient is significantly higher in the case of Kudumbashree groups in comparison with NGO groups.

16. Microfinance programme inculcated a habit of regular savings among its clients. All the participant households have some savings in the post microfinance period, while almost 99 percent of them had had no savings in the pre-microfinance period. The average total savings of the participant household is Rs.20, 380. More than 62 percent of the clients have savings in post office or chitty or both, apart from the savings in SHGs/NHGs. The positive role of microfinance programme in the promotion of savings is more visible as the number of the non-participant households with savings is substantially low with 6.7 percent.

17. The asset holdings of participant households have enhanced significantly. Majority of the clients acquired various assets such as livestock (46.67%), gold jewellery (45%) and various consumer durables (68%). The acquisition of gold jewellery is more conspicuous in the Kudumbashree groups both in Idukki and Wayanad districts. Further, the participant households out-numbered those in the nonparticipant households with respect to the possession of all the consumable durables.

18. The most striking finding of the study is that microfinance contributed to alleviation of poverty substantially. The subjective and objective poverty approaches have been used to determine the poverty status of the participant households. The results of both techniques indicate that the incidence of poverty among the participating households is significantly less compared to the non-participant households. All the participant households were in the State BPL list before joining the microfinance programme and now 22 percent of them came out of the poverty trap as per this list. The subjective poverty estimate has showed that 27 percent of the participant families are APL.

19. The participant households are ahead of the non-participant households with respect to the possession of basic amenities such as drinking water, electricity, LPG and land phone with the exception of sanitary facilities. The households belonging to the Kudumbashree groups out-numbered those in the NGO groups in the possession of these amenities.

20 The active participation in the microfinance programme brought perceptible changes in the lives of its clients. Almost all the clients could make substantial improvement in various

indicators of personal empowerment such as knowledge and social awareness, leadership qualities, co-operative mentality, communication skills, self-confidence, decision-making capacity and abilities to face problems.

21. The major problems confronted by the clients are categorized into four, namely, organizational problem, financial problem, production problem, and marketing problem.

Test Results of the Hypotheses

Based on empirical findings, this study accepts all the hypotheses of the study.

Conclusion

Microfinance programme has achieved remarkable success in reaching the poor and bringing banking services to the door-steps of the poor. It has also succeeded in making the poor economically active by way of increasing the employment and income levels as well as the asset base. This intervention has become a vital channel for reducing under-nourishment and poverty and for promoting human capital investment such as education and health. In addition to considerable progress in the household welfare, the clients experienced an impressive improvement in their personality and social position.

However, microfinance can serve as a still better instrument of poverty alleviation and of promoting household welfare if the State Government and the NGOs focus greater attention to widen economically viable self-employment choices and the skill-base of the clients, to assist the clients in getting interest-free or low interest–bearing loans, in marketing and in improving the quality of their products and also by strengthening the monitoring mechanism and by ensuring benefits of the programme accruing to the core and to the moderate poor too. Otherwise, the potential benefits of microfinance cannot be realized on a sustainable basis.